Senate Budget & Fiscal Review

Senator Wesley Chesbro, Chair

Subcommittee No. 3
on
Health, Human Services, Labor, and Veterans Affairs

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5160 Department of Rehabilitation

The Department of Rehabilitation assists people with disabilities to obtain and retain employment and to maximize their ability to live independently in the community. The department operates the Vocational Rehabilitation Services program, funded primarily with federal funds, to provide vocational services to persons with disabilities. Some of these services are provided through cooperative agreements with other state and local agencies including school districts, state and community colleges, mental health departments and county welfare departments. The department provides habilitation services, and vocational and supported employment services for persons with developmental disabilities. These services are funded by a combination of state funds and federal Home and Community Services Medicaid reimbursements. The department also provides support services for Community Rehabilitation Programs, including independent living centers.

The Department of Rehabilitation eliminated 123.5 positions between the 2001-02 and the 2002-03 fiscal years. The budget proposes the elimination of another 48.8 positions in the 2003-04 fiscal year. **The Department's budget is anticipated to be $343.8 million ($43.1 million General Fund), reflecting a decrease of 28.4 percent in total funds and a decrease in the general fund contribution of 72.1 percent.**

Summary of Expenditures (dollars in thousands)	2002-03	2003-04	$ Change	% Change
General Fund	$154,645	$43,100	-$111,545	-72.1
Vending Stand Account	3,360	3,421	61	1.8
Federal Funds	293,640	289,481	-4,159	-1.4
Reimbursements	28,691	7,818	-20,873	-72.7
Total	$480,336	$343,820	-$136,516	-28.4

ISSUE FOR INFORMATION ONLY

1. Vocational Rehabilitation Services: One-Stop Career Centers

Background: The Department of Rehabilitation is a mandated participant in the operation of One-Stop Career Centers, required as a part of the federal Workforce Investment Act and managed by the 50 Workforce Investment Areas throughout the state. The Department has negotiated the placement of VR services in at least one One-Stop Center in each Workforce Investment Area.

In addition to assuring some co-location of VR services, the Department has provided leadership to a work group reporting to the California Workforce Investment Board to address the issues of disability access in the workforce investment system. The work group has completed various activities including:

- Acquired discretionary Workforce Investment Act funds for training and services to support improved access in local One-Stop Centers, including a small fund for grants to local One-Stop Centers to improve accessibility.
- Provided training to One-Stop Centers on ADA, disability services, and facility and program access.
- Developed a plan for statewide marketing on hiring persons with disabilities for the workforce investment system.
- Participated in the development of an assessment tool for One-Stop Centers to determine their accessibility to persons with disabilities.
- Participated in discussion of standards to provide guidance to One-Stop centers.

The Budget Act of 2002 required the Department of Rehabilitation to report by February 1, 2003, the cost it expects to expend to participate in California's One-Stop System for the 2002-2003 fiscal year. The budget requires that the department report on the number of staff committed and the total cost to participate in each one-stop. It also requires that the department coordinate with other state agencies to report the required information in a consistent format to facilitate the comparison of the state's expected contributions to one-stops. **The Subcommittee will consider this report and the status of California's One-Stop employment services' system as part of its consideration of the Employment Development Department's budget.**

2. Vocational Rehabilitation Services: Ticket to Work Act

Background: In December 1999, President Clinton signed the federal Ticket to Work and Work Incentives Improvement Act into law. The Ticket to Work Act was designed to increase work participation and reduce the use of benefits among persons with disabilities, particularly persons receiving Social Security Disability Insurance (SSDI) and Supplemental Security Income (SSI). It provides a ticket that may be used by SSI/SSDI beneficiaries to obtain employment services from a provider of their choice. The federal act reimburses providers only after the claimant obtains work. The act also provides that claimants can maintain Medi-Cal or Medicare coverage while working.

The federal government has been slow in initiating Ticket to Work authority to states. It has staged implementation of the act over a three-year period beginning in 2001. The current schedule is for California to begin its program at some point this calendar year. The Supplemental Report Language of the 2002 Budget Act required DOR to report in 2003 budget hearings about the status of planning and implementing the Ticket to Work Act in California. The Budget Act of 2002 requires that the department provide updates to the state's timetable for implementation, the impact of implementation on the DOR caseload, projections of participation by Californians in the federal program and a summary of budget and program impacts in the 2003-04 fiscal year. **The Department has completed drafting the report. However, the report is in the administrative review and approval process.**

Subcommittee request: The Subcommittee has requested that the Department of Rehabilitation provide the report on the state's implementation of the Ticket to Work Act required by the Budget Act of 2002 and that the department discuss its findings during the May Revise hearings.

3. Vocational Rehabilitation Services

Background: The Vocational Rehabilitation Services (VR) program assists individuals with disabilities to prepare for, enter into, and retain competitive employment. It is the Department of Rehabilitation's primary program and accounts for 93 percent of the department's proposed 2003-2004 budget. Vocational Rehabilitation Program services include client assessments, counseling and guidance, purchase of individualized rehabilitation services, job skills training and job placement services. Department staff members stationed in approximately 120 field offices throughout the state deliver program services to approximately 81,000 individuals who have a full range of physical and mental disabilities. The department also collaborates with school districts, county mental health programs, county welfare departments and state and community colleges to provide program services to persons mutually served by these agencies.

The VR program is not an entitlement program and lacks the necessary funding to serve all eligible clients. The department is currently funded to serve 99.1 percent of all eligible clients through June 30, 2003. Accordingly, the Department has established an Order of Selection (OOS) process to assess applicants and to grant priority for services to persons with the most significant disabilities. The OOS process has been operating since September 1995 and has twice ceased delivery of services to new applicants for periods of time due to lack of funds. Since July 1999 DR has been able to maintain stable service levels in the categories of Most Significantly Disabled and Significantly Disabled clients. This stability is due to improved cost estimating and reporting methods. In addition, the Department has implemented a new assessment tool that is more consistent in scoring and takes significantly less time to complete. Thirty-eight percent of the cases served by VR in 2001-02 received SSI, SSDI or both. This percentage has been growing over recent years, confirming that the programs serve significantly disabled clients. The largest categories of clients include those with a psychiatric or substance abuse disability (23.2%), physical disability (27.4%) or learning disorder (16.3%).

Last year, **the budget proposed and the Legislature enacted a series of changes to increase efficiency in the provision of vocational rehabilitation services and to generate budgetary savings.**

The changes adopted included:

- Reducing the frequency and duration of medical examinations, psychological evaluations and vocational assessment evaluations.
- Reducing the cost of post-secondary education services by requiring clients to identify alternative education benefits; by using community colleges, where appropriate, to meet higher education needs; and by limiting payment for private schools to the rate that would be paid to a public school or university.
- Reducing the cost of Personal Social Vocational Adjustment services, which are services to train clients in appropriate work related behaviors.
- Reducing the cost of computer services provided to clients, by maximizing the use of bids and statewide or regional contracts to procure computer services.
- Suspending the provision of modifications to a consumer's home or work site deemed essential to enable the consumer to function in that setting.

The Budget Act of 2002 **required the department, by December 1, 2003, to report to the Legislature on the state's performance on federal vocational rehabilitation performance measures, including the impact of cost-efficiencies on the number of clients served or the performance success of rehabilitation services.**

The Vocational Rehabilitation Services Program is funded by combined federal, state, reimbursements and special deposit funds. The program receives approximately 4 dollars in federal funds for each state dollar invested and has a federally required match that can be met with general fund dollars, reimbursements or third-party in-kind dollars. In 2002-03, the federal grant was budgeted at $259 million, with a required match of $70.1 million. In 2003-04, the Department estimates that the federal grant will total $255 million, with a required match of $69 million.

Governor's Budget: The **budget provides $321.2 million ($42.6 general fund) in funding** for the Vocational Rehabilitation Program. **It reduces program funding from the 2002-2003 appropriation by $7.7 million ($1.8 million general fund)**. The proposed savings result from Supported Employment Program and Work Activity Program provider rate reductions and restructuring program components.

The budget proposes to maintain services to the categories of Most Significantly Disabled and Significantly Disabled clients through June 30, 2004. It estimates that caseload will remain at the current year level and does not propose adjustments based on caseload changes.

ISSUES FOR DISCUSSION

1. Work Activity Program – Suspension of Biennial Rate Setting

Background: The Work Activity Program (WAP) provides work experience and ancillary work-related services in a sheltered setting to persons with developmental disabilities. The program assists individuals in reaching and maintaining their highest level of vocational potential. WAP serves an estimated 12,000 consumers through not-for-profit agencies authorized and reimbursed by the Department of Rehabilitation. WAP is a component of both the Vocational Rehabilitation Services Program and the Habilitation Services Program.

WAP services are usually provided in a sheltered workshop and include both paid work and work related services. Providers are reimbursed for services on a per consumer day basis. WAP rates vary from provider to provider based on their WAP historical costs. Existing law requires the rate to be re-established every two years, based on the provider's cost of providing services. In other words, rates would be set for the 2003-04 fiscal year based on expenses incurred in the 2001-02 fiscal year.

Governor's Budget: The budget **proposes to suspend WAP rate adjustments for the 2003-2004 fiscal year to realize savings of $16.9 million ($12.3 general fund)**. Since WAP rates are adjusted biennially and 2003-2004 is a rate setting year, suspension of the rate adjustment will continue the current rates until the end of the 2005-2006 fiscal year.

Providers write in opposition of the rate suspension arguing that it may jeopardize provider programs as the gap between reimbursement and costs will continue to expand. The current rates are based on cost calculations from the 1998-99 fiscal year and do not account for increased costs such as higher energy costs and higher workers compensation costs. Providers assert that approving the proposed rate adjustment suspension will freeze rates for 7 years and will constitute a serious hardship for providers.

Subcommittee request and questions: The Subcommittee has requested that the Department of Rehabilitation briefly describe the proposed rate suspension and its estimated impact on provider participation in the Work Activity Program.

Budget issue: Does the subcommittee wish to approve the proposed Work Activity Program rate suspension?

2. Work Activity Program and Supported Employment Program – Rate Reduction

Background: The Work Activity Program and the Supported Employment Program provide a range of services to persons with developmental disabilities, and blind and deaf-blind individuals to assist them in reaching and maintaining their highest level of vocational potential. The Work Activity Program provides work experience and ancillary work related services in a sheltered setting. The Supported Employment Program provides clients competitive employment opportunities and provides training and ancillary support services to enable clients to learn job skills and maintain employment. SEP services are provided in individual or group settings. Not-for-profit entities and job coaches provide WAP and SEP services to approximately 28,000 clients statewide.

WAP and SEP are components of both the Vocational Rehabilitation Services Program and the Habilitation Services Program. WAP and SEP services are provided with base Vocational Rehabilitation funding when clients are potentially likely to succeed in supported or competitive employment in the community. However, most WAP and SEP services are provided under the Habilitation program and target clients who are unable to benefit from VR services, or who have progressed through VR services and have continued long-term support needs in order to participate in employment.

WAP and SEP services are funded with a combination of federal VR funds and their accompanying state match, Medicaid Home and Community-Based Services Waiver reimbursements and other state funds. The budget provides $37.6 million ($7.7 million general fund) to support VR WAP and SEP services. The Habilitation Services Program WAP and SEP are proposed to transfer to the Department of Developmental Services in fiscal year 2003-04 (See issue 4).

Governor's Budget: The budget **reduces provider rates in the Work Activity Program and the Supported Employment Program by 5 percent to realize savings of $6.3 million in general fund.** Rates in the Supported Employment Program will be lowered from $28.33 to $26.91 per job coach hour. Work Activity Program rates will vary from provider to provider based on their historical costs but will be reduced by 5 percent from their 2002-03 level.

Representatives of providers oppose the proposed rate reduction and argue that it will put at risk the continued employment of over 1,000 persons with developmental disabilities. They report that WAP and SEP service providers are currently incurring deficits to support the continued provision of program services. They argue that lower rates will increase providers' operating deficits, may lead at least two providers to closure and risk the future of the program. They assert that the proposed rate reductions will diminish provider participation in the programs and will most likely result in reduced program services.

Representatives of providers assert that the proposed rate reductions are not necessary to meet the projected WAP and SEP budget for the 2003-2004 fiscal year. The Department of Rehabilitation projects caseload in the WAP and SEP Vocational Rehabilitation Program to remain at its current year level and projects a 2.9 percent increase in the WAP and SEP Habilitation Services caseload. **Providers argue that the estimated program caseload is significantly overstated.**

WAP and SEP are employment-based programs that are directly affected by job availability. Given the state's economic status and high unemployment rates, WAP and SEP consumers, like many other Californians, have lost their jobs and are facing difficulties in securing new employment. **Last year, the loss of employment among WAP and SEP clients has contributed to the reversion of $7.6 million to the general fund. Providers argue that California's ongoing economic challenges will continue to result in depressed WAP and SEP program caseloads. They write that the estimated program caseload may not reflect the effects of job loss and the unemployment rate on demand for program services. As a result, the current estimate may overstate caseload.**

Subcommittee request and questions: The Subcommittee has requested that the Department of Rehabilitation answer the following questions:

1. Provide a brief summary of the proposed provider rate reductions.
2. Describe the effect of the proposed reduction on provider participation in WAP and SEP and the availability of services to consumers.
3. How do actual claims for reimbursement compare to the estimated caseload projections in the current year?
4. Does the estimated program caseload consider the experience in the current year, and the effect of job loss and high unemployment rates on the demand for program services?

Budget issue: Does the Subcommittee wish to approve the proposed 5 percent provider rate reduction? Does the Subcommittee wish to approve funding for WAP and SEP programs based on the estimated program caseload?

3. Habilitation Services Program Transfer

Background: The Habilitation Services Program (HSP) provides a range of services to persons with developmental disabilities, and blind and deaf-blind individuals to assist them in reaching and maintaining their highest level of vocational potential. The majority of HSP clients are persons with developmental disabilities referred to the program by Regional Centers. Program consumers receive work experience and ancillary work related services in a sheltered setting through the Work Activity Program or competitive employment opportunities, training and ancillary support services through the Supported Employment Program. Program services are considered an entitlement under the Lanterman Act.

Not-for-profit entities and job coaches generally provide Habilitation Services Program services. The Department of Rehabilitation is responsible for administering the program, monitoring compliance with program requirements and reimbursing providers. HSP serves over 18,000 clients annually and has a total budget of $132.8 million ($117.6 million general fund).

Habilitation Services Program's work activities date back to 1960s when parent organizations established day activity centers for adult consumers. The centers evolved into either work activity programs that provided paid work opportunities or day training activity centers that offered training in daily living skills. By the late 1960s, DOR was providing funding for work activity programs for consumers considered too disabled for competitive employment. Subsequently, administration of all adult day programs was transferred to the Regional Centers. In 1980, administration of the employment programs was transferred back to the Department of Rehabilitation through the establishment of the Habilitation Services Program.

Since1980 regional center consumers with WAP service needs identified in their Individual Program Plan have been referred to the Department of Rehabilitation to receive employment services through the Habilitation Services Program. Starting in 1986 these consumers have been able to receive WAP and supported employment services through the DOR's Habilitation Services Program.

Governor's Budget: The **budget proposes to transfer the Habilitation Services Program from the Department of Rehabilitation to the Department of Developmental Services** and to consolidate program administration. It **assumes increased administrative efficiencies as a result of the proposed transfer and estimates net savings of $1.5 million general fund.** The proposal does not assume any new funding to the Regional Centers for program administration. The budget transfers a total of $116 million to DDS.

According to the Administration **the proposed transfer is a result of a study required by the Budget Act of 2002.** The budget required the Department of Rehabilitation and the Department of Developmental Services to review the operation of the DOR's Habilitation Services Programs and other work activity programs in each department, as deemed appropriate by the departments. It directed the departments to examine the eligibility for consumer participation in each program, consumer outcome measures, and program provider rates and to make recommendations for streamlining and consolidating the programs. **DDS and DOR concluded that there is not a clear distinction between the programs that DOR funds and the employment services funded by regional centers** as both programs have shifted to a community integrated, "person-centered" model for all individuals, regardless of their disability. **The departments concluded that the primary distinction between the programs is the rate of payment provided and that it is appropriate to restructure the Habilitation Services Program at this time.**

The Administration argues that the proposed transfer of the Habilitation Services Program to the DDS will increase the ability of regional centers to coordinate available services to better meet consumer needs. They believe it will increase the potential for expansion of federal financial participation by consolidating within a single department administrative and program responsibility for all employment services funded by California's Home and Community Based Services Waiver. Lastly, the Administration contends that having a single agency that is responsible for all employment and day program "entitlement services" will facilitate current and future cost savings efforts.

Representatives of providers and consumers raise numerous concerns regarding the proposed Habilitation Services Program transfer. They argue that the existing program structure is not consistent with the Regional Center model, that regional centers will need additional resources to administer the program, and that the proposed transfer raises serious operational issues. They believe that if the operational issues are not appropriately address, the transfer will compromise program integrity and risk the continued employment of over 18,000 persons with developmental disabilities.

Currently the Department of Rehabilitation is the single entity responsible for authorizing, reimbursing and overseeing providers. The budget proposes that regional centers assume DOR's responsibilities, which will divide the task of reimbursing providers across 21 entities. Providers believe that the reimbursement process will become increasingly onerous, demanding that providers spend more time on program administration and away from providing services.

Providers argue that there are significant issues regarding the compatibility of the Habilitation Services Program and the Day Program Activities funded by Regional Centers. They cite reliance on different accreditation standards, varying reimbursement methodologies, and the fact that the DOR only contracts with not-for-profit entities while regional centers contract with both for profit and not-for-profit entities, as examples of factors that will affect program compatibility.

Providers raise concerns regarding the different expertise of the DOR and the DDS as a factor that may undermine the success of the program. DOR has a long-standing history of working with both employers and persons with disabilities to eliminate barriers to employment and increase the participation of persons with disabilities in the labor force. DDS and the regional centers do not have long-term experience working with employers and creating employment opportunities for persons with disabilities. They argue that the success of the program is largely contingent on the ability of the administering agency to work effectively with employers.

Providers cite that WAP and SEP are employment-based programs that require coordination of services to assure the continued employment of consumers. They argue that some regional center cost containment strategies, such as increased holidays, may limit the availability of services, such as transportation, necessary to support WAP and SEP consumers. They argue that the transferred program must continue to focus on employment and meeting the needs of WAP and SEP consumers.

Lastly, providers note that the WAP and SEP programs will remain divided between DDS and DOR as WAP and SEP services are offered through the Habilitation Services Program and the Vocational Rehabilitation Services Program. They state that providers will continue to work with both departments and that the programs will not be entirely consolidated.

The Department of Rehabilitation and the Department of Developmental Services have worked for three months to develop an implementation plan for the proposed transfer. They have recently begun working with representatives of regional centers and providers to address many of the previously discussed operational issues to increase the feasibility of the proposed transfer. Although some progress has been made, many significant factors affecting the functioning of the program remain unresolved.

Subcommittee request and questions: The Subcommittee has requested that the Department of Rehabilitation and the Department of Developmental Services answer the following questions:

1. Provide a brief description of the proposed program transfer.
2. Discuss the impact on consumers and providers of the proposed transfer.
3. Describe the process for addressing the operational concerns arising from the proposal and developing an implementation plan.
4. Discuss the process for including stakeholders in development of the implementation plan.
5. Are the proposed deadlines for the transfer realistic in light of the operational concerns that have been identified and other factors affecting the development of an implementation plan?

Budget issue: Does the Subcommittee wish to approve the proposed transfer of the Habilitation Services Program from the Department of Rehabilitation to the Department of Developmental Services and adopt the resulting net savings of $1.5 million general fund?

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5170 State Independent Living Council

The State Independent Living Council (SILC) was established by executive order in June 1996. The SILC is required by the Federal Rehabilitation Act of 1973 (as amended in 1992) for the state to receive federal funding for Independent Living Services and the Centers for Independent Living. The SILC is responsible for developing a state plan for independent living in conjunction with the Department of Rehabilitation and is required to monitor, review and evaluate the implementation of that plan.

5170				
Summary of Expenditures (dollars in thousands)	2002-03	2003-04	$ Change	% Change
State Council Services (Reimbursements)	$574	$515	($59)	-10.3
Total	$574	$515	($59)	-10.3

The SILC has a staff of three to support a Council membership of 18. The budget increased by 38 percent between the 2001-02 and the 2002-03 fiscal years. The budget proposes to reduce SILC support by 10.3 percent but maintains support for the council above the 2001-02 level.

The SILC is currently working with the Department of Rehabilitation to conduct a needs assessment necessary to develop the federally required state plan for independent living.

In addition to working with DOR to prepare of the state plan for independent living, the SILC publishes reports on disability issues, evaluates grants for the Department of Rehabilitation, and partners with other disability agencies and interest groups to provide information and referral to the public. It also works with other agencies to promote independent living values and services. Finally, the SILC contracts for a Systems Change and Education network, operated through Independent Living Centers, with full-time advocates linked to a statewide network of empowerment teams.

4130 Health and Human Services Agency Data Center
5180 Department of Social Services – Automation Issues

The Health and Human Services Agency Data Center (HHSDC) seeks to increase efficiency and effectiveness in the use of electronic data processing resources by providing services to departments and agencies within the Health and Human Services Agency in a consolidated manner. HHSDC is supported entirely by reimbursements from departments that contract with the data center for services.

The HHSDC has two general components: operations and systems management. The operations component provides computer services, telecommunications support, information systems, and training support to departments in the Health and Human Services Agency. The systems management component manages five major projects for the Department of Social Services. These include (1) the Statewide Automated Welfare System (SAWS), automating eligibility and administrative functions for CalWORKS, Food Stamps, Medi-Cal, Foster Care, Refugee and County Medical Services programs; (2) the Child Welfare Services/Case Management System (CWS/CMS) for the Child Welfare Services, Foster Care and Adoptions programs; (3) the Statewide Fingerprint Imaging System (SFIS) to identify duplicate applicants for CalWORKS and Food Stamps benefits; (4) the Electronic Benefit Transfer (EBT) program to deliver assistance benefits to eligible recipients through electronic funds transfer; and (5) the Case Management, Information and Payrolling System (CMIPS) for the In-Home Supportive Services program. The HHSDC budget is increased by $16 million in spending authority, an increase of 5.2 percent.

Summary of Expenditures (dollars in thousands)	2002-03	2003-04	$ Change	% Change
HHSDC Revolving Fund	$315, 587	$331,900	$16,313	5.2
(Operations)	[$133,134]	[$117,566]	[-15,568]	-11.7
(Systems Management Services)	[$182,453]	[$214,334]	[31,881]	17.5
Total	$315,587	$331,900	$16,313	5.2

ISSUES FOR DISCUSSION

1. Operations and Infrastructure investments

Background: The Health and Human Services Agency Data Center (HHSDC) seeks to increase efficiency and effectiveness in the use of electronic data processing resources by providing services to departments and agencies within the Health and Human Services Agency in a consolidated manner. The HHSDC has two general components: operations and systems management. The operations component provides computer services, telecommunications support, information systems, and training support to departments in the Health and Human Services Agency.

Governor's Budget: The **budget increases by $7.2 million the HHSDC spending authority to fund various increased operational costs including infrastructure improvements and changes to better meet customer needs.** The budget proposes to increase HHSDC spending authority to support the following activities:

a. Establish an operational recovery services site to serve the Employment Development Department and the Department of Developmental Services ($1.2 million). These services will assure that EDD can continue to operate its tax program system, Unemployment Insurance system and Disability Insurance system in case of a disaster such as a flood, a fire or sabotage. The services will also permit DDS to utilize the California Developmental Disabilities Information System, which the department uses to manage service delivery and provider reimbursements, in case of a disaster. **The HHSDC states that this proposal will allow EDD to comply with a federal requirement that it establish a contingency plan to assure the use of its databases in the case of a disaster.**

The ***Legislative Analyst*** **recommends that the Legislature deny this proposal arguing that it is not consistent with the project's Feasibility Report and that HHSDC did not examine all viable options when developing the proposal.**

Budget issue: Does the subcommittee wish to approve the proposed $1,152,000 increase in spending authority to support the establishment of an operational recovery services site?

b. Purchase computer equipment and establish new positions to support the HHSDC increased activities ($4.7 million). The increased spending authority will fund the upgrade of a shared central processing unit, augment the HHSDC enterprise disk storage capabilities, accommodate enterprise tape processing, distributed server, and UNIX growth. It will also fund fifteen new positions to accommodate the increase in the infrastructure workload and support workload growth in computing and cost recovery services.

The ***Legislative Analyst*** **recommends denial of the augmentation since the requests do not relate to new projects and the method used to develop the proposal is based on past workload growth not current demand.** The HHSDC retorts that departments' requests and current demand confirm the need for additional equipment and staff funded by the proposed augmentations.

Budget issue: Does the subcommittee wish to approve the proposed $4,727,000 increase in spending authority to purchase new equipment and establish new positions to accommodate workload increases?

c. Establish 2 new positions to support workload growth in the Information Technology Security Branch ($207,000). The increased spending authority will support two new positions necessary to accommodate workload growth in the

HHSDC security branch. The unit is responsible for IT security incidence reports, cyber security, resolution of IT security issues for HHSDC customer departments, and staying abreast of changing IT security and cyber terrorism issues. **The unit's workload has significantly increased as the number of computer hacking attempts and other incidents is on the rise.** This spending authority increase seeks to protect the integrity of the HHSDC program. The Legislative Analyst has raised no issues with this proposal.

Budget issue: Does the subcommittee wish to approve the proposed $207,000 increase in spending authority to establish two new staff positions in the Information Technology Security Branch?

d. Negotiate a new rental agreement ($1.1 million). The HHSDC's current lease is set to expire on May 31, 2003 and the Data Center is in the process of negotiating a lease renewal. The Data Center estimates that its rent costs will increase by $1,066,000 million per year.

Budget issue: Does the Subcommittee wish to approve the proposed $1,066,000 increase in spending authority for increased rent costs?

2. Report on Efforts to Lower Costs and Rates

Background: The Supplemental Reports of the 2002 Budget Act directed the HHSDC to perform a study to identify operations that should be improved and would result in reduced rates and costs. The information contained in this report may assist the Data Center and the Legislature in identifying efficiencies and reducing costs. The Budget did not specify a due date for the required report and the HHSDC has advised subcommittee staff that the report will likely be completed by June of 2003.

The Legislative Analyst comments in her analysis that unlike other departments whose budgets are based on reimbursements, the HHSDC has not proposed reductions to its spending authority outside those linked to the statewide elimination of vacant position and adjustments for completed projects. These HHSDC spending authority reductions amount to $15.6 million in the current year. The Analyst writes that unlike the Department of General Services, which decreases its spending authority by $17 million in the budget year, the HHSDC does not propose additional decreases to its spending authority outside those linked to the statewide elimination of vacancies and adjustments for completed projects. In addition, the HHSDC has not reduced the rates it charges departments.

Subcommittee request and question: The Subcommittee has requested that the HHSDC report on actions it has taken or will take to reduce its costs and the status of report required by the Budget Act of 2002.

3. Training Center – proposed budget bill language

Background: The HHSDC operates the state's IT training center which is used by both state and local governments. The HHSDC uses contractors to teach the training classes and only purchases contractor services after enough students have enrolled in the proposed classes. Based on past workload growth trends, HHSDC estimates that its current expenditure authority will be inadequate to meet the training needs of government agencies.

Governor's budget: The budget **proposes budget bill language that authorizes the Department of Finance to increase the HHSDC's expenditure authority to accommodate additional training requests.**

The ***Legislative Analyst*** **recommends deletion of the proposed budget bill language** as the HHSDC already has budget bill language that authorizes the Department of Finance to increase its authority for unanticipated workload.

4. IHSS – Case Management Information and Payrolling System

Background: The In Home Supportive Services (IHSS) program provides supportive services to eligible aged, blind and disabled persons that allow them to stay at home, healthy and safe, avoiding institutionalization. Beginning in 1979, the state developed and maintained a case management information and payrolling system for providers of IHSS services (the Case Management Information and Payrolling System, or CMIPS). The current contract to provide the system has been extended, and the Data Center is in the process of developing an RFP for a new system to replace the 20-year-old system. Development of the RFP has taken longer than anticipated due in part to the complexity of the system associated with new employer-of-record requirements for counties in the IHSS program**.**

Governor's Budget: The budget proposes to increase the HHSDC spending authority by $795,000 and to extend six limited term state positions through fiscal year 2003-04 to support planning efforts for the new CMIPS system.

Subcommittee request and questions: The Subcommittee has requested that the HHSDC report on the status of CMIPS and efforts to collaborate with key stakeholders in the development of the RFP.

Budget issue: Does the Subcommittee wish to approve the proposed spending authority increase?

5. Electronics Benefit Transfer Project

Background: Electronic Benefits Transfer (EBT) is the automation of welfare benefit authorization, delivery, redemption and reconciliation. The system will replace paper food stamp coupons and benefit checks with transfers and use of benefits through point-of-sale devices and automated teller machines. Federal welfare reform enacted in 1996 requires states to implement EBT for food stamps by October 2002. State law requires DSS and the Data Center to establish an EBT committee to advise on development of a statewide system, and to establish a single statewide EBT system that counties may use for other benefits.

Procurement difficulties delayed the selection of an EBT vendor for a year. A vendor was finally selected in July 2001. The rollout of implementation is now on schedule. According to the current schedule, which has been approved by the federal government, California will fully implement EBT by September 2004. California's failure to adhere to the implementation schedule is likely to result in a $400 million federal penalty.

Governor's budget: The **budget proposes to increase funding for the Electronics Benefits Transfer Project by $7.5 million and to establish one position to meet workload demands**. This funding will support the addition of 27 counties to the EBT system. A total of 46 counties will have implemented the EBT system by the end of the 2003-2004 fiscal year.

Budget issue: Does the Subcommittee wish to approve the $7.5 million increase in HHSDC's spending authority for continued implementation of the EBT Project?

6. Child Welfare Services/Case Management System – Expanded Adoptions Subsystem

Background: Federal and state laws require the state to provide automated case management support to child welfare workers. California accomplishes this goal through the Child Welfare Services Case Management System.

The state has already developed the main CWS/CMS system, which meets 61 of the 87 federally required functionality requirements. The state has plans to meet 15 of the remaining requirements within the existing system. It is also continuing to develop the system to meet all federal functionality requirements. The major components that remain to be developed include performing automated Title IV-E eligibility determinations, establishing interfaces to Titles IV-A and IV-D, and to Medi-Cal, and 5 requirements regarding financial management and policy guidance.

As part of its compliance with federal requirements and the continued development of the CWS/CMS system, the Administration proposes to develop an Expanded Adoptions Subsystem. This subsystem will permit caseworkers to track and report all adoption agency activities related to children who may be adopted, adoptive applicants (potential adoptive parents, and birth parents. CWS/CMS will also be expanded to automate the preparation of many case specific documents required by the adoptions process and the development of adoptions program statistical analysis.

The federal government monitors on a weekly basis California's progress in meeting federal CWS/CMS requirements. California's failure to meet standards may result in federal penalties amounting to one-time repaying of approximately $50 million in enhanced federal financial participation and an annual loss of $16 million in federal financial participation. It appears that the federal government is willing to abstain from issuing financial penalties as long as California continues to make measurable progress in meeting the federal requirements.

Governor's Budget: The budget proposes to increase HHSDC's spending authority by $35.2 million. This amount includes a $30.5 million increase for ongoing maintenance and operations needs of the CWS/CMS system and $4.7 for the design, development, integration and implementation of the Expanded Adoptions Subsystem.

Eleven million of the $30.5 million proposed increase for ongoing maintenance and operation of the CWS/CMS system is for hardware costs. The Legislative Analyst recommends that the HHSDC finance rather than purchase hardware which could substantially reduce costs for CWS/CMS maintenance and operations in the budget year.

The budget proposes to amend the current CWS/CMS contract for development and implementation of the Expanded Adoptions Subsystem. The Legislative Analyst recommends that the Legislature adopt budget bill language to direct HHSDC to examine alternative procurement options prior to amending the existing contract as these may result in reduced budget year costs.

Subcommittee request and questions: The Subcommittee has requested that the HHSDC answer the following questions:

1. Report on the status of CWS/CMS and the state's implementation plan
2. Discuss the state's communications with the federal government and the likelihood of the federal government assessing penalties on California
3. Briefly describe the budget year CWS/CMS proposals.

The Subcommittee has also requested that the Legislative Analyst discuss the proposed alternatives to the Governor's budget proposals.

Budget issue: Does the Subcommittee wish to approve the proposed increase in spending authority of $35.2 million to support ongoing maintenance and operations needs of the CWS/CMS system and to design, develop and implement the Expanded Adoptions Subsystem?

7. Statewide Automated Welfare System (SAWS)

Background: SAWS is a multi-program automated system that provides support to eligibility determination, benefit computation, benefit delivery, case management and management information for CalWORKs, Food Stamps, Medi-Cal, Foster Care, Refugee Assistance and the County Medical Services program. The system is delivered through a multiple county consortium including four consortia. (Interim SAWS, 35 counties; Los Angeles Eligibility Automated Determination, Evaluation and Reporting System or LEADER, 1 county; Welfare Client Data System, 18 counties; and Consortium IV, 4 counties).

The Data Center is responsible for the state-level project management of the Statewide Automated Welfare System Consortium and provides oversight for the four consortia, including review of project documents and budgets, deliverables and risk management. The HHSDC provides computing, application maintenance and operational support services for the 35 ISAWS consortium counties. The Data Center is also responsible for assuring that state and federal control agency approvals are completed in a timely fashion. The budget contains the following proposals relative to the SAWS budget:

a. Proposes budget bill language that authorizes the Department of Finance to increase the HHSDC's expenditure authority to cover costs associated with the procurement of a new application maintenance contract for the ISAWS Consortium.

The ISAWS consortium is the oldest in the SAWS system, and uses proprietary software that is expensive to change. The current contract for application maintenance ends in December 2003 and HHSDC is in the process of procuring a new application maintenance contract. It is anticipated that the new contract will exceed the funding in the current baseline budget for this activity. The increase is anticipated because consultant rates have increased since the previous procurement was conducted in 1996 and because funding will be required for a transition period during which both the current and new vendor will be providing services.

The county consortium members in November of 2001 voted to end the ISAWS program, and to plan for county members to move to one of the other consortia in SAWS, most likely C-IV or WCDS. The counties in the ISAWS program are small or medium, and generally do not have the resources to independently change to a new consortium, without state support.

The Budget Act of 2002 contained budget bill language requiring the Department of Social Services and the Health and Human Services Data Center work with the ISAWS Consortium to determine the steps necessary to ensure that ISAWS counties migrate expeditiously to one of the remaining SAWS consortia. The HHSDC and DSS have been working to plan for the potential migration of ISAWS counties to one of the remaining SAWS consortia.

Although the ISAWS county consortium members have voted to migrate to another SAWS consortia system (either C-IV or WCDS) and the HHSDC and DSS have been working on a migration plan the current ISAWS system must continue to be maintained until migration is complete.

The proposed budget bill language authorizes the Department of Finance to increase the HHSDC's expenditure authority to cover costs associated with the procurement of a new application maintenance contract for the ISAWS Consortium. The language recognizes that the current ISAWS contract will end in December 2003 and that ISAWS counties will not have migrated to other systems by that time. By providing DOF authority to increase the HHSDC's spending authority, the budget facilitates the uninterrupted operation of the ISAWS system in the budget year.

Budget issue: Does the Subcommittee wish to approve the proposed budget bill language?

b. Shifts funding for conversion of data from the Los Angeles Eligibility, Automated Determination, Evaluation and Reporting System to the Welfare Data Tracking Implementation Project from 2002-03 to 2003-04 and increase the HHSDC's spending authority by $302,000.

The Welfare Data Tracking Implementation Project allows counties to track in an automated fashion recipient time on aid and contains the time clocks necessary to determine one-time and ongoing eligibility. Since the application was made available in June 2000, 55 counties have converted their data to WDTIP. Initial conversion activities for the remaining counties, excluding Los Angeles, continue. This budget proposal shifts county conversion funding to the 2003-04 fiscal year, as Los Angeles will no longer convert to WDTIP in 2002-03. The budget increases HHSDC's spending authority by $302,000 in the budget year. This proposal does not affect California's ability to comply with federal and state welfare-to-work time limits.

Budget issue: Does the Subcommittee wish to approve the proposed expenditure authority increase of $302,000 consistent with the delay in converting data from LEADER to WDTIP?

8. Electronics Benefits Transfer Project – Department of Social Services' staffing

Background: Electronic Benefits Transfer (EBT) is the automation of welfare benefit authorization, delivery, redemption and reconciliation. The system will replace paper food stamp coupons and benefit checks with transfers and the use of benefits through point-of-sale devices and automated teller machines. Federal welfare reform enacted in 1996 requires states to implement EBT for food stamps by October 2002.

Due to contracting challenges, California's implementation of an EBT system has been delayed. According to the current schedule, which has been approved by the federal government, California will implement EBT fully by September 2004.

Responsibility for development and implementation of the new EBT system is divided between the Health and Human Services Data Center and the Department of Social Services. The Data Center is responsible for technical development and operation of the system including working with the EBT vendor to implement the system in 27 additional counties by the end of the fiscal year. The Department of Social Services is responsible for protecting the fiscal integrity of the program and meeting federal requirements that the state have a higher degree of control in the issuance of benefits.

Governor's budget: **The budget proposes to increase the Department of Social Services' budget by $205,000 for EBT related staffing needs**. The funding increase will support the conversion of a limited term position to a permanent position and the establishment of a position to address program integrity issues, as well as the conversion of a limited term position to permanent and the establishment of a new position to provide fiscal oversight.

Budget issue: Does the Subcommittee wish to approve the proposed budget increase to the Department of Social Services of $205,000 to support EBT activities?

9. Statewide Fingerprint Imaging System (SFIS)

Background: State law requires DSS and the Data Center to design, implement and maintain a system for gathering a fingerprint image for applicants for and recipients of CalWORKs. The law also establishes imaging as a requirement of eligibility for CalWORKs and a condition of issuance for Food Stamps. California's Statewide Fingerprint Imaging System was designed and implemented to meet the state law requirements.

The Statewide Fingerprint Imaging System works to identify duplicate applicants for CalWORKS and Food Stamps benefits. It seeks to protect program integrity by deterring or detecting duplicate-aid fraud. Specifically, SFIS matches fingerprint images of program applicants against a database containing fingerprint images of existing program participants. California has spent an estimated $53.7 million on SFIS and continuing program costs are estimated to be $10.7 million per year.

This program has been extremely controversial and legally contentious. A court decision issued in 2001 limited the capacity of the state to require fingerprints for certain non-aided adults in the household, but affirmed other elements of the program. The Court affirmed the requirement of a photo image of the applicant with the fingerprint and the requirement that a caretaker relative be fingerprinted and photo imaged. The state has appealed the decision and is awaiting the court's final ruling.

The California State Auditor recently evaluated the level of fraud detected through SFIS, the level of fraud deterrence resulting from the system and SFIS's deterrence of eligible applicants, and the system's cost-effectiveness. The Auditor found that the Department of Social Services did not know the extent of duplicate-aid fraud before implementing SFIS. The Auditor's review suggests that the extent of known duplicate-aid fraud before SFIS was implemented appears not to have been significant. The Auditor concludes that the level of detected duplicate-aid fraud has been very small, and that there is insufficient evidence to substantiate SFIS's cost-effectiveness. The Auditor also concludes that the system may run counter to legislative and federal efforts to increase participation in the Food Stamps Program among eligible individuals. The audit raises concerns about the system's goals and suggests that SFIS may be more effective at deterring eligible individuals from seeking assistance than protecting program integrity.

The Department of Social Services disagrees with the Auditor in a number of ways. First, the department believes that the Auditor gives the reader the impression that the Department of Social Services made the decision to implement SFIS on its own and ignores the years of legislative debate that led to enactment of legislation directing the department to develop and implement the system. The department also contests the conclusion that DSS did not have an adequate understanding of the extent of duplicate aid fraud or the potential cost/benefit of a statewide system. The department argues that the mandate to implement SFIS was based on an independent analysis conducted of the Los Angeles County Automated Fingerprint Imaging and Match System, which comprises 40 percent of the state's caseload. Lastly, the department argues that the budget assumes $68.6 million in savings as a result of fraud deterred by SFIS. The department estimates that the lost savings due to termination of the SFIS system would be significantly lower than the assumed savings (approximately $30 million) due to an assumed gradual return of the deterred caseload.

Governor's Budget: The budget includes $10.7 million in funding for ongoing maintenance and operation of the SFIS system.

Subcommittee request and questions: The Subcommittee has requested that the California State Auditor briefly present its audit findings and has requested that the department of Social Services answer the following questions:

1. What is the level of demonstrated cost savings associated with the SFIS system and how are these savings demonstrated?
2. To what extent does SFIS deter eligible beneficiaries from applying for food stamps or CalWORKs benefits?